

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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Docket No. R97-1

POSTAL RATE AND FEE CHANGES, 1997

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
VAL-PAK DEALERS' ASSOCIATION, INC., VAL-PAK DIRECT MARKETING
SYSTEMS, INC., AND CAROL WRIGHT PROMOTIONS, INC. WITNESS HALDI
(USPS/VP-CW-T1—1-25)

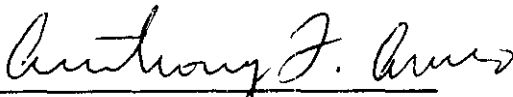
Pursuant to rules 25 and 26 of the Rules of Practice and Procedure and rule 2 of the Special Rules of Practice, the United States Postal Service directs the following interrogatories and requests for production of documents to Val-Pak Dealers' Association, Inc., Val-Pak Direct Marketing Systems, Inc., and Carol Wright Promotions, Inc. witness Haldi: USPS/VP-CW-T1—1-25.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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USPS/VP-CW-T1-1. Please refer to page 12 of your testimony. You state, "In the present docket, the cost models for Standard A mail have been further refined through, for example, explicit attention to certain costs which were not modeled previously in Docket No. MC95-1. As a result of the more detailed cost information provided by the Postal Service in Docket No. MC95-1 and this docket, it is now possible for the first time to develop bottom up estimates of volume-variable unit costs for each rate cell within the Standard A ECR subclass."

- a. Is the first sentence of your statement intended to refer to models for Standard Regular or Standard ECR, or both subclasses?
- b. If the first sentence is intended to refer to Standard ECR, what costs in Standard ECR are presented through models? Please provide citations.
- c. To what refinements does your statement refer? Please provide citations to testimony or analyses.
- d. What information was lacking that made it impossible, prior to this docket, to develop bottom up cost estimates? Please explain.
- e. Please confirm that, prior to this docket, the Postal Service presented separate unit delivery costs for Standard (A) ECR subclass categories, including ECR Basic, High Density, and Saturation.
- f. Please confirm that delivery costs make up the largest share of total volume variable ECR estimated costs. If not confirmed, please explain.

USPS/VP-CW-T1-2. Please refer to page 12 of your testimony at lines 11-13. You state that "[b]ottom up costs for Standard A Mail have therefore been developed separately

for letters and nonletters."

- a. Does your statement apply only to Standard (A) ECR subclass mail? Please explain your response.
- b. Is your statement intended to convey that the Postal Service has developed bottom up costs for Standard A Mail, or that you have developed them for Standard A Mail, or both? Please explain your response.

USPS/VP-CW-T1-3. Please refer to your testimony at page 13, lines 5-6. You state, "[e]ach rate cell is thought of, appropriately, as a separate product." Are you aware of other contexts in which the Commission has endorsed the idea within any Standard (A) subclass that rate cells within the subclass are separate products? If so, please provide citations.

USPS/VP-CW-T1-4. Please refer to your testimony at page 17, footnote 14. Please reconcile the statement that the final adjustment for nonletters was treated as weight related, as was done with letters, with the statement on page 14, lines 13-14, that the costs for letters were adjusted on a per-piece basis.

USPS/VP-CW-T1-5. Please refer to your testimony at page 18, line 7. Please show the derivation of the 220 percent figure.

USPS/VP-CW-T1-6. Please refer to your testimony at page 18, lines 7-12. You state, "[u]sing witness Daniel's per-piece data for mail processing, delivery, transportation, and

other costs, the unit cost for a Saturation letter would be 3.8527 cents per piece. Shifting 2.33 cents of this amount to weight-related cost leaves a piece-related cost of 1.5227 cents which, when multiplied by a slightly-reduced coverage of 210 percent, results in 3.2 cents, which is the same as witness Moeller's proposed rate."

- a. Why do you use the cost of saturation letters rather than nonletters when determining the shift to weight related costs?
- b. Why did you limit the shift such that the resulting cost coverage was 210 percent rather than 220 percent?

USPS/VP-CW-T1-7. Please show the derivation of the 11.91 cent figure in line 14 of page 18 of your testimony.

USPS/VP-CW-T1-8. Please refer to page 18 lines 14-17. You state, "[t]reating 'other' costs as pound-related further increases the weight-related cost for mail entered at DDUs by another 0.54 cents per pound, to 12.45 cents per pound."

- a. What reasons support treating "other" costs as pound-related?
- b. What reasons support treating "other" costs as piece-related?

USPS/VP-CW-T1-9. Please refer to your testimony at page 21, lines 12-14. You state, "[m]ailers who enter mail in only one or two rate cells are more concerned with the coverage assigned to the rates which they use, than with the average coverage for the subclass as a whole." In previous rate dockets, have cost coverages been explicitly "assigned" to rate categories in Standard (A), as opposed to subclasses in Standard (A),

either through Postal Service proposed rates or through Commission recommended decisions? Please explain your response.

USPS/VP-CW-T1-10. Please refer to your testimony at page 25, Table 3. Please provide the margins and markups for flats and non-flats separately in the Nonletter grouping.

USPS/VP-CW-T1-11. Please refer to your testimony at page 28, lines 8-9. You state, "[s]aturation mail is also the ECR mail which is most susceptible to diversion to alternative methods of delivery."

- a. Please describe or provide the facts or other information that you considered in drawing this conclusion.
- b. To what types of alternative methods of delivery does your statement refer?
- c. How should the Commission evaluate this information in terms of criterion 3622(b)(4)? Please explain.
- d. How should the Commission evaluate this information in terms of criterion 3622(b)(5)? Please explain.

USPS/VP-CW-T1-12. Please refer to page 35, lines 12-14. You state, "[i]f the Commission finds itself unable to reduce the ECR coverage factor in this docket, a decision with which I would disagree, this makes it all the more important to ensure that that high coverage level is shared reasonably by mail within the Subclass."

- a. What reasons would you offer in favor of a lower ECR cost coverage?
- b. Does your reference to sharing the "high coverage level" "reasonably" intended to be an endorsement of any particular pricing strategy, such as equal markups or Ramsey pricing? Please explain your response.

USPS/VP-CW-T1-13. Please refer to pages 35-36. You state, "[s]hould the Commission decide to adopt the ECR coverage at the 228 percent level proposed by the Postal Service, that makes it all the more necessary for the Commission to utilize a bottom up costing method which deliberately and thoughtfully sets mark-ups that do not excessively burden saturation mail." If the Commission does not adopt a "bottom up" costing approach, can it still set rates within the ECR subclass which "deliberately and thoughtfully" avoid imposing an excessive burden on saturation mail? If so, how?

USPS/VP-CW-T1-14. Please refer to page 39 lines 10-12. You state, "[a]t a minimum, the Commission should strive for rates that do not produce grossly inconsistent results between different rate categories and cells within subclasses."

- a. To what does your reference to "inconsistent results" refer? What results are inconsistent?
- b. Is your statement intended to imply that you have adopted a particular pricing approach, such as equal markups or Ramsey pricing, in the context of comparing rates within a subclass?
- c. To what extent are your proposed rates inconsistent as the term is defined in subpart (a)?

- d. To what extent are your proposed rates inconsistent with the concept of an equal markup pricing theory?

USPS/VP-CW-T1-15. Please refer to page 52 of your testimony. You state, "[t]he presort rate differences in Table 6 reflect 60 percent of the presort cost differences; i.e., only 60 percent of the cost of sortation is passed through in the rates." Did you intend to pass through 60 percent of *the cost of sortation*, or did you intend to pass through 60 percent of *presort cost differential*? Please explain.

USPS/VP-CW-T1-16. Please refer to your testimony at page A-8 Table A-1. Please confirm that footnote [1] should refer to Exhibit USPS-29C instead of Exhibit USPS-29D.

USPS/VP-CW-T1-17. Please refer to your testimony at page A-8, Table A-1.

- a. Please provide your calculations of "Other" costs in column [4].
- b. Please provide citations for each of the inputs used in the calculation of the figures in column [4].
- c. Please explain why you chose to use CRA After Rates costs.
- d. Please explain if you used *Before Rates* or *After Rates* piggyback factors. If you used *Before Rates* piggyback factors, please explain why you believe it is appropriate to mix these piggyback factors with CRA After Rates costs.

USPS/VP-CW-T1-18. Please refer page A-10, Table A-3 in your testimony.

- a. Please confirm that the source of the data is USPS LR-H-145.

- b. Please confirm the number of pieces reported for ECR Basic Automation letters (336,502,422) in USPS LR-H-145 is already included in the figure reported for Basic letters (2,262,380,553).
- c. Please confirm that including the 336,502,422 ECR Basic Automation letters in the 2,979,232,871 figure results in double counting. If you cannot confirm, please explain why the total number of pieces for Standard A Enhanced Carrier Route reported on page A-10 of your testimony is 336,502,422 pieces greater than the same total found on page G-2 of USPS LR-H-145.

USPS/VP-CW-T1-19. Please refer to your testimony page A-11, Table A-4.

- a. Please confirm that the source of the data is USPS LR-H-145.
- b. Please confirm the number of pounds reported for ECR Basic Automation letters (17,119,401) in USPS LR-H-145 is already included in the figure reported for Basic letters (104,880,958).
- c. Please confirm that including the 17,119,401 pounds assigned to Basic Automation letters in the 104,880,958 total results in double counting. If you cannot confirm, please explain why the total number of pounds for Standard A Enhanced Carrier Route reported on page A-10 of your testimony is 17,119,401 pounds greater than the same total found on page G-2 of USPS LR-H-145.

USPS/VP-CW-T1-20. Please refer to page A-14, Table A-7 of your testimony. Please explain how you calculated costs for automated letters dropshipped to BMC, SCF, and DDU. Please give exact citations for each figure used in your calculations, including

page and column number.

USPS/VP-CW-T1-21. Please refer to page 11 of your testimony. You state that "theoretically it should be possible to estimate that the average unit cost either from top down or from the bottom up."

- a. Please confirm that although it may be theoretically possible to estimate the average unit cost from either a top down or a bottom up analysis, it may not be realistically possible if every element of costs was not known.
- b. Please confirm CRA does not track the cost of ECR pieces by entry point because there are no unique dropship endorsements for IOCS to tally.

USPS/VP-CW-T1-22. Please refer to page A-19 Table A-12, and page A-24 Table A-17, of your testimony.

- a. Please confirm that, despite the identification of the \$491,006 figure on page A-19 as a "CRA After Rates Total Cost for Letters," this figure is not reported in the CRA or USPS-T-15I.
- b. Please confirm that, despite the identification of the 1,375,766 figure as "TYAR CRA Total for Nonletters," this figure is not reported in the CRA or USPS-T-15I.
- c. Please confirm that the sum of the figures in subparts (a) and (b) do not equal the total adjusted volume variable costs of ECR Standard A mail reported in USPS-T-15I.

USPS/VP-CW-T1-23. If one were to employ a "bottom-up" rate design in the Regular

Subclass, would the resulting rate for residual shape pieces (that is, pieces which are subject to the residual shape surcharge under the Postal Service's proposal) be higher or lower than the USPS-proposed rates? Do you advocate bottom-up costing and rate design in the Regular subclass?

USPS/VP-CW-T1-24. Please see your testimony at page 7, lines 11-14, where you discuss the characteristics of VPDMS' mail.

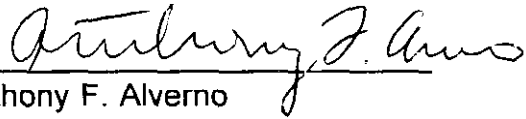
- a. Is this mail generally lighter than 3.3 ounces? If not, what is the average weight per piece?
- b. Is the current rate paid by the 98 percent of VPDMS' mail described in this passage of your testimony 11.5 cents? If not, what rate does this mail pay?
- c. Is the proposed rate for this mail 11.6 cents, an increase of less than 1 percent? If not, what is the proposed rate and the proposed percentage increase?

USPS/VP-CW-T1-25. On page D-5 of your testimony you state "After use, the empty containers will have to be moved".

- a. Does this statement imply that you believe the costs of removing empty equipment should be borne by the classes of mail that cause those containers to arrive in the place from which they are being removed?
- b. Do you believe that IOCS observations of equipment when full in a particular operation provides a good indication of the classes of mail that cause empty equipment to need to be removed from a particular operation?

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


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